Local Government Budgeting: Albania

Alma Gurraj

Artan Hoxha

Auron Pasha

Genc Ruli

Qamil Talka

Irma Tanku
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Local Government Budgeting—Albania

Alma Gurraj • Artan Hoxha • Auron Pasha • Genc Ruli
Qamil Talka • Irma Tanku

1. LOCAL GOVERNMENT SYSTEM

1.1 Introduction

Since the start of the transition, Albania has progressed through several severe economic and political maelstroms. During the last three years, progress has been made in the achievement of macro-economic stability. Despite this, Albania continues to have one of the lowest levels of per capita income in Europe and the poverty level remains high. The fiscal situation is improving, but it remains the primary issue to be addressed in the near future. A new agreement with the International Monetary Fund (the Poverty Reduction and Growth Facility) has been signed. A second important related policy initiative, the Medium-Term Expenditure Framework, is being carried out in conjunction with the World Bank.

Albania has no history of political pluralism and has little developed civil society infrastructure. Political fighting between the two main political parties is intense. For the last few years, about 80% of the local government units have been under the control of the Democratic Party, while the Socialist party has controlled the national government. Despite this highly charged political environment, a number of important steps toward decentralization have been undertaken since 1999.

The reform of 1992 set up politically autonomous local governments for the first time and, as a result, the whole system of local governance began to shift to a more decentralized and autonomous model. This must be viewed as a very important achievement in Albania. Some of the services and functions, from which the public benefits directly, were passed to the local bodies. However, though politically autonomous, these local bodies still lacked real administrative and fiscal autonomy in addition to the necessary authority and tools needed for implementation. In addition, the main steps undertaken were based mainly on centralized political objectives.

A new Constitution was adopted in 1998 and the European Charter of Local Self-Governance was signed and ratified in 1999. This clearly indicates that Albania has committed itself to decentralize government operations. The most significant action
taken has been the adoption by the national government of the National Strategy for Decentralization and Local Autonomy. This strategy lays out a plan for the delegation of authority from the central to the local government.

Implementation of the strategy holds out the promise of moving government decision-making closer to the citizens, thus giving them more control over the future development of their own communities. However, many hurdles must be overcome before decentralization becomes a reality. Laws, and the accompanying regulations needed to implement them, must be formulated and adopted; local officials need to be capable of assuming new responsibilities; citizens must be encouraged to participate in local government and an organizational capacity must be established to represent the interests of local government in national policy deliberations.

The research team consisted of specialists from the Institute for Development Research and Alternatives (IDRA) and the Institute for Contemporary Studies (ICS).

For the following research, the IDRA and ICS team selected three local governments, which differed in status and other factors (size, population, degree of urbanization, etc). These three units are:

- Tirana Municipality because of its size (almost one-third of the Albanian population is situated in it) and importance as the capital city of Albania,
- Kamza Municipality—a municipality of the first category,
- Baldushku Commune—there are several differences in the way a municipality and a commune operates, so we want to explore both of them for the purposes of this analysis.

### 1.2 Reforming the Local Government System

The ratification of the Albanian Constitution in November 1998 created new possibilities for local governments. The main provision (Article 108) of the Albanian Constitution defines the following: Local government in the Republic of Albania is based on the principles of the decentralization of power and of autonomy. Article 108/3 defines communes and municipalities as basic units of local government. The local government units are legal entities and have an independent budget.¹

Article 109/1 defines the local councils as the representative organs of communes and municipalities, whose members are elected every three years by general direct elections and anonymous voting. On the other hand, the mayor is designated by the executive body of the municipalities/communes. The municipalities/communes directly administer all local issues within their jurisdiction. In addition, they have the right to levy local taxes in accordance with the law and to exercise their property rights.
The Constitution defines a new level in the organization of local government: the regions, which function as a second level of the local government system.

In January 2000, the government approved the National Decentralization Strategy. The objective of this strategy is to take full advantage of the opportunity provided by the new Constitution to create, promote and implement a new vision of local government. It is important to recognize that the legal framework of the local government system consists of many laws that function together. This framework covers the following major subject areas:

- Framework of local government organization,
- Framework for central-local government fiscal relations,
- Framework for the operation of local public property and enterprises,
- Legislation that elaborates specific powers of local governments.

Although recently there have been improvements in economic performance, the country is still in the process of recovering from a series of shocks that slowed economic growth. The fiscal situation is precarious, personal incomes remain low and poverty is still a significant problem. Current expenditures exceed domestic revenues and the large amounts of accumulated public sector debt results in a situation where interest payments amount to more than a quarter of current expenditures.

The government also faces difficult fiscal choices related to meeting the widespread public needs with limited resources. Decentralization, with increased powers and responsibilities transferred to local governments, requires a rearrangement of fiscal flows. Indeed, experience to now suggests that it will take several years to accomplish this fully.²

To aid in overcoming these difficulties, the government has entered into a Poverty Reduction and Growth Facility agreement with the International Monetary Fund and has agreed to achieve certain macro-economic and policy targets.³ Several points are linked to local government functions. One critical aspect is that the preparation process is highly participatory in nature. It is also anticipated that local governments should and will be heavily involved in strategy. This will have an impact on the budgeting process at the local level, which will be more closely linked to some general strategic goals.

In addition, the government has introduced the Medium-Term Expenditure Framework, which is being carried out in conjunction with the World Bank. The framework is intended to provide greater predictability in budget planning by allowing both investment and recurring expenditures to be planned in a rolling three-year program. It would also explicitly link expenditure allocations to government policies and strategies. However, there are still unresolved questions concerning how this framework is to be linked to local government budgets.
Table 1.1
Role of Local Government in the Macro-Economy [Millions of Lek]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>229,700</td>
<td>281,000</td>
<td>341,000</td>
<td>460,600</td>
<td>506,205</td>
</tr>
<tr>
<td>State budget expenditures (SBE)</td>
<td>77,134</td>
<td>87,569</td>
<td>100,730</td>
<td>141,628</td>
<td>165,692</td>
</tr>
<tr>
<td>[%] SBE to GDP</td>
<td>33.60</td>
<td>31.20</td>
<td>29.50</td>
<td>30.70</td>
<td>32.73</td>
</tr>
<tr>
<td>Total local expenditures (TLE)</td>
<td>20,705</td>
<td>20,691</td>
<td>20,143</td>
<td>25,756</td>
<td>34,103</td>
</tr>
<tr>
<td>Conditional transfers</td>
<td>20,484</td>
<td>20,066</td>
<td>19,515</td>
<td>25,034</td>
<td>27,047</td>
</tr>
<tr>
<td>Block grant (BG)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>5,699</td>
</tr>
<tr>
<td>Own local expenditures (OLE)</td>
<td>221</td>
<td>625</td>
<td>628</td>
<td>792</td>
<td>1,357</td>
</tr>
<tr>
<td>[%] TLE to SBE</td>
<td>26.84</td>
<td>23.62</td>
<td>20.00</td>
<td>18.24</td>
<td>20.58</td>
</tr>
<tr>
<td>[%] TLE to GDP</td>
<td>9.01</td>
<td>7.36</td>
<td>5.89</td>
<td>5.61</td>
<td>6.74</td>
</tr>
<tr>
<td>[%] OLE to TLE</td>
<td>1.07</td>
<td>3.02</td>
<td>3.12</td>
<td>3.07</td>
<td>3.98</td>
</tr>
<tr>
<td>[%] (OLE+BG) to TLE</td>
<td>1.07</td>
<td>3.02</td>
<td>3.12</td>
<td>3.07</td>
<td>20.69</td>
</tr>
<tr>
<td>[%] (OLE+BG) to GDP</td>
<td>0.10</td>
<td>0.22</td>
<td>0.18</td>
<td>0.17</td>
<td>1.39</td>
</tr>
</tbody>
</table>

The share of total local government expenditures in the state budget expenditures shows a high ratio (27% in 1995, but decreasing to about 21% in 1999), but in fact it does not provide real autonomy for local governments in their decisions on expenditures. Two types of expenditures were usually included in the conditional transfers: transfers for salaries and transfers for investments. At least 80% of the conditional transfers are for the payment of salaries, (such as for educational staff) and the local governments act only as the paying agent and have no other role or possibility for decision-making.

1.3 Local Administration

The first law approved in accordance with the National Decentralization Strategy was the Law On the organization and Functioning of Local Government, No. 8652, dated July 31, 2000, that became effective on the local government elections day (October 1, 2000). Its aim is to create a functional system by determining clearly four components of local government: the functions and responsibilities, the finances, the properties and the organizational structures. The law defines and regulates:

- Principles governing local governments (municipalities/communes and regions),
- Typology of functions (exclusive, shared, delegated),


• Related typology of authority,
• Financial authority of the local governments (i.e., budgeting and fiscal),
• Internal organization and allocation of authority,
• Territorial reorganization of the local governments,
• Timetable for implementation.

1.3.1 Structure of the Local Government System

The Law on the Territorial and Administrative Division of Local Government Units in the Republic of Albania, No. 8653, dated July 31, 2000, defines all regions, municipalities and communes in the Republic of Albania following a specific format. According to the law, there are 12 regions, 36 districts (sub-divisions of a region), 65 municipalities and 309 communes in Albania.

First Level

The basic units of the local government system are the communes and municipalities, which are considered to be the first level. They have similar public responsibilities and possess similar types of authority and competence. The only difference between them comes from the fact that they act in rural and urban areas, respectively.

A commune represents a territorial and administrative unit. It is a community in rural areas and in specified urban areas. The law determines the size, name and center of the commune. Sub-divisions of a commune are called villages and, in some special cases, towns. The council of the commune determines any territory of a sub-division.

A municipality represents a territorial and administrative unit. It is a community in an urban area or, in specific cases, in rural areas. Sub-divisions of a municipality in an urban area are quarters, which must have more than 15,000 inhabitants. Rural sub-units of a municipality are called villages and must have more than 200 inhabitants. The towns are established by law.

Based on the number of inhabitants and territorial size, local government units in Albania have been categorized into four classes. Based on this categorization, a different number of personnel, different organizational structure, salary levels and costs for the administration are established. In fact, this categorization has served as a formula for the distribution of central funds. (Once the Law Concerning Intergovernmental Fiscal Relations has been approved, this categorization will be replaced because of the new formulation for the distribution of funds.)

Local government elections are held every three years by general direct elections with anonymous voting. The mayors, the heads of communes and the members of the councils of municipalities and communes are elected by the inhabitants with the right
to vote. The size of the council of a municipality/commune is based on the number of inhabitants of the entities (the Law Concerning the Organization and Functioning of Local Government, Article 24).

Second Level

A Region is the second level of local government. It represents a territorial and administrative unit, which is composed of communes and municipalities with geographic, traditional, economic and social ties as well as joint interests. The borders of a region correspond with the borders of the communes and municipalities that are included in it. Sub-divisions of a region are called districts.

The representative organ of a region is the council of the region, which consists of representatives from elected bodies of the communes and municipalities in proportion to the number of inhabitants, but with a minimum of at least one representative. The mayor and the heads of communes in the region are always members of the council of the region. The number of the representatives from the municipalities and communes in the council of a region is set in proportion to the number of residents in the municipality or commune in the region (The Law Concerning the Organization and Functioning of Local Government, Article 50).

Tirana Municipality Status

The population of the capital, Tirana, exploded from 320,000 in 1992 to more than 900,000 in 2000. As a dynamic area of growth and the main economic center of the country, the potential is good for revenue growth in the city. Tirana’s total independent budget revenues collected directly by the city agencies have increased since 1994. The reasons for this increase are due partly to increased economic activity in Tirana and partly to improved efforts by the city tax collection agency to collect taxes.

Since October 2000, the organization and functioning of the Tirana Municipality is based on a special law (No. 8684, dated July 31, 2000), which sub-divides Tirana into eleven municipal units, the heads of which are elected directly by the inhabitants. The structure of these units is the same as that of a municipality, with each having both a unit council and unit head. All of these units are under the authority of the mayor of Tirana.

The budget of a municipal unit is financed partly from own revenues and partly from the Tirana Municipality Budget which is decided by the municipal council. The municipal units of Tirana do not possess fiscal authority. They lack sufficient funds to carry out their tasks as defined by law because the Municipality of Tirana uses the majority of funds, and a strategic plan for Tirana does not exist.
1.3.2 Legal Competencies of Local Government

The current legal framework defines the rights and duties of every local government level.

- **Right of governance**: a local government can issue directives, orders and ordinances, all of which are obligatory for all entities within its jurisdiction. They can take any necessary measures for carrying out their functions. To conduct their activities, local governments can create administrative structures to carry out their functions and exercise their powers, in compliance with the laws in force.

  As they deem necessary to carry out specific functions, the local government can establish economic units and other institutions under their authority as well as create committees, boards and commissions. They also may create any administrative or territorial sub-division within their jurisdiction to perform functions of government, as set forth in the Law.

- **Property rights**: Laws give property rights to the local authorities, but in reality they do not currently own any personal or real property, since the central government owns all assets. This right will be transferred to local governments only after the passage of the Law Concerning the Transfer of Real Property, which is currently under discussion in parliament.

- **The right of fiscal autonomy**: local governments may collect revenues and make expenditures related to the execution of their functions. They can levy taxes and fees in compliance with the legislation in force and the interest of the community. Local governments have the right to adopt and execute their budget. There will be only a single unified local budget in contrast to the two budgets that existed before the current law (concerning the independent and conditional budget) was approved. Both the unconditional and conditional transfers will be reflected in the unified local budget.

- **Economic development right**: local governments have the right to undertake economic development initiatives in the interest of their residents, if these activities do not contradict the fundamental direction of the economic policy of the state. The major part of revenues coming from economic activities of local governments must be used to provide public functions. The economic activity of the local government units is regulated by legislation on economic activities.

In truth, Albanian local government units have little experience in managing such economic activities. Up to now, they have only dealt with some minor activities regarding different transactions necessary to perform some of their exclusive functions. However, this was not significant.
• *The right of cooperation:* local governments have the right to carry out specific functions on behalf of and for the benefit of their residents. Two or more units of local government may perform any task assigned to them by law by implementing mutual agreements or contracts, by delegating specific competencies and/or responsibilities to each other or by contracting with a third party. Local governments may collaborate with similar units of local government in other countries and they are also represented in international organizations relating to local governments, in accordance with special legislation. However, in reality such practices do not currently exist, since the related financial issues have not been cleared and defined.

Local government units have the right to be organized in associations in conformity with the legislation for associations. Up to now, two main associations are clear examples of the right of local governments to cooperate. They are the Albanian Association of Municipalities, whose head is the mayor of the Tirana Municipality, and the Association of the Heads of Communes. They were established in order to facilitate cooperation among local governments in Albania and to find mutual ways of increasing the effectiveness of the functions exercised. These associations have played a significant role both in the design of the National Strategy of Decentralization as well as in the drafting of the related new laws. In addition, they are active to some extent in the organization of training for newly elected local and administrative staff. The association is working with many local and international organizations to design a program, which includes a significant training component, for serving its own members.

• *The right to be a legal entity:* local governments are legal entities and may exercise all the rights set forth in the Civil Code of the Republic of Albania and in the current legislation in force. Local government units have the right to make contracts, to establish other legal entities, to bring a civil court case, to keep accounts and to carry out other functions in compliance with the laws and normative acts.

All local government bank accounts are in the state treasury. The right to open bank accounts is expected to be given in the long-run.

• *Other rights:* local governments may grant honorary titles as well as other moral and material motivations. Each local government can name the territories, objects and institutions under its jurisdiction in accordance with the criteria set forth in law. This law expresses the rights of the local governments clearly.
Figure 1.1
The Organizational Structure of Local Governance and the Responsibilities of their Respective Bodies

Region
Some municipalities and communes with geographic, traditional, economic, social ties, etc.

Municipality/Commune
Territorial and administrative integrity and community of inhabitants

Representative
Council of Municipality/Commune
- Approves the status of commune/municipality;
- Approves the organizational structure of commune/municipality;
- Approves the founding documents of enterprises and commercial companies;
- Approves the budget and its changes;
- Establishes the local taxes and tariffs and their level;
- Makes decisions about taking loans;
- Approves the disposition of property or its giving for use to third parties.

Executive
Mayor/Head of Commune
- All the competencies that are not covered by the council;
- Implements the council decisions;
- Reports to the council for the economic–financial situation (at least once in six months);
- Nominates and relieves deputy mayors/directors of enterprises/employees that are not under the civil service law;
- Ensures all the obligations of the municipality as a legal entity.

Administration of Municipality/Commune

Subdivisions of Municipality/Commune
Quarter
- Administrative apparatus;
- Administrator—civil servant directly subordinate to the mayor;
- Carries out all the administrative duties given by the mayor and the municipal council.

Village
- The council of the village is elected by voting of not less than half of the eligible inhabitants;
- Head of the village is nominated by the council;
- Elections held every three years, not later than six months after commune elections;
- Head of the village and the council support the functions of the commune in their village.
Figure 1.2
Bodies at the Regional Level

**Regional Council**

- Adopts the statute and internal regulations concerning the functioning of the council;
- Decides on the obligatory taxes for each commune and municipality to be transferred to the regional budget;
- Adopts the organizational and administration structure and main regulations of the regional administration;
- Approves the foundation documents of the legal entities created by the regional council or in which it is a co-founder;
- Approves and amends its budget;
- Approves transfers of ownership (sale, purchase, disposition) and rental of its immovable property to third parties;
- Implements and supervises the internal control of the region;
- Decides rates of all taxes and tariffs (fees);
- Decides to take on and liquidate obligations to third parties;
- Approves any legal proceedings instituted in its name;
- Adopts norms, standards and criteria for the regulation and enforcement of functions granted to the regional council by law, as well as protects and guarantees the public interest on a regional level.

**Chairman**

- Approves any legal proceedings instituted in its name;
- Presides over the regional council meetings and its board;
- Signs all acts of the council and its board as well as minutes of the council meeting and its board;
- Ensures the enforcement of decisions of regional council and its board;
- In compliance with the agenda of the regional council meeting and its board, shall prepare reports, draft decisions and produce other necessary materials;
- Manages the administration of the region and is accountable to the regional council for its functioning;
- Hires and dismisses the administrative staff of the regional council, with the exception of the cases otherwise described in the Law No. 8549, dated November 11,1999 concerning Civil Servants;
- Guarantees the execution of functions of regions defined by law.

**Board**

- Approves any legal proceedings instituted in its name;
- The board shall exercise all the functions and competencies of the regional council, with the exception of those which have been clearly and exclusively granted to the regional council;
- Reports to the council on the economic-financial situation no less than every six months or when requested by the council;
- Reports to the council at any time as requested by the council;
- To exercise its responsibilities, the board may issue decisions, which are approved by the majority of the members attending and which are effective after being published or after the affected parties have been notified.

**Regional Administration**

- Approves any legal proceedings instituted in its name;
- The board shall exercise all the functions and competencies of the regional council, with the exception of those which have been clearly and exclusively granted to the regional council;
- Reports to the council on the economic-financial situation no less than every six months or when requested by the council;
- Reports to the council at any time as requested by the council;
- To exercise its responsibilities, the board may issue decisions, which are approved by the majority of the members attending and which are effective after being published or after the affected parties have been notified.
1.3.3 Relations to the Central Administration

Role of Line Ministries

The line ministries have significant responsibilities concerning investment at the local level. The conditional transfers (conditional local budget) are made available to the local level by the line ministries (these funds are also part of budgets of the line ministries). In the law concerning the state budget, the investment funds are determined in total for each line ministry (not specifically for each project). The subsequent allocation of funds to specific projects depends on the interest of the ministry, independent of the requests from local governments submitted during the budget preparation process. These funds are used for very specific purposes and are determined and distributed by both the line ministries and the Ministry of Finance. The local government has no right to make decisions concerning these funds or to allocate them to other than their stated purpose. The relations between the local governments and the line ministries are through the Ministry of Finance. (It is expected that the new Law on Intergovernmental Fiscal Relations will define the procedures and establish the related timetable regulating the negotiations between the local governments and line ministries concerning conditional transfers. These are planned to be effective by 2003. This process will increase the role of local governments and enable them to prepare a consolidated budget before the next fiscal year begins.)

The role of line ministries is significant even in the administration of the local enterprises that provide public services. The term enterprise means that the entity has a semi-autonomous structure with a separate director, budget and staff. Among these enterprises are those responsible for the waste, water and sewage systems, transportation, etc. Key management and financial decisions are made by the line ministries which have functional responsibility for the sector and by the Ministry of Finance. In most cases, they decide on the number of employees, on the maintenance and investment priorities and on budgets for each enterprise. The Ministry of Finance sets public sector salaries for all employees, including those working directly for local enterprises. The state also retains ownership over all physical assets of the enterprises.

Many of these of enterprises are now being privatized in order to improve the efficiency of service provision. The line ministries control the privatization process as well.

The central government is represented at the local level. The Ministry of Finance has local offices at the district level for controlling and assessing the state operating and investment funds. These offices exercise considerable oversight concerning local finances. The Budget Office is the local governments’ counterpart during the preparation of their budgets for central approval. All local government finances, including revenues from local taxes and fees are held in an account administered by the local
treasury offices. At the local level, the Ministry of Finance also has a tax department responsible for collecting both national as well as some of the local taxes. Certain ministries, such as the Ministry of Education and the Ministry of Agriculture and Food, also have local departments in order to implement their policies.

Role of Prefecture

A prefectural system also represents a second level of the central government. The twelve prefectures in Albania cover all the territory. Each contain a specific number of municipalities and communes. Based on law, the prefect controls the implementation of decisions made by local governments. In addition, the prefecture has certain responsibilities during the local budgeting process. (Recently, a new administrative structure was established. It is similar to a prefecture and controls the use of funds by local governments.)

1.4 Local Government Functions and Service Delivery

1.4.1 Municipal Functions and Competencies

The current legal framework determines the functions and responsibilities for each local government level and establishes which of these functions are exclusive, shared or delegated functions.

Exclusive Functions of a Commune and Municipality

The law assigns exclusive functions to local governments. To carry out these functions, the local government has the authority to make decisions and use methods allowed within the norms, criteria and standards generally accepted by law. Local governments exercise full administrative, service, investment and regulatory authority over these functions. They can decide about the planning, distribution, extension, investments, norms, standards, financing, administration and other aspects of carrying out these functions. Following are the four main categories of functions:11

- Infrastructure and public services:
  - Water supply;
  - Sewage, drainage system and [flood] protection channels in residential areas;
  - Construction, renewal and maintenance of local roads, sidewalks and squares;
  - Public lighting;
  - Public transportation;
— Cemeteries and funeral services;
— City/village decoration;
— Parks and public spaces;
— Waste management;
— Urban planning, land management and housing according to the manner described by law.

• Local economic development:
  — The preparation of programs for local economic development;
  — The setting (regulation) and functioning of public market places and trade networks;
  — Small business development as well as the carrying out of promotional activities, such as fairs and advertisements in public places;
  — Performance of services to support local economic development, such as the provision of information, necessary structures and infrastructure;
  — Veterinary services;
  — The protection and development of local forests, pastures and natural resources of local character.

• Social, cultural and recreational functions:
  — Saving and promoting the local cultural and historic values, the organization of activities and the management of relevant institutions;
  — Organization of recreational activities and the management of relevant institutions;
  — Social services, including orphanages, day care, homes for the elderly, etc.

• Civil security:
  — The protection of public order to prevent administrative violations and to enforce the implementation of commune or municipality acts;
  — Civil security.

The Law on Intergovernmental Relations proposes that the central government issue national standards that the local governments are exclusively responsible for achieving. The national standards represent minimum requirements to protect the public from specific and urgent risks to health and safety. They are to be applied uniformly to general categories of local governments, such as municipalities, communes and regions.

Shared Functions

According to law, communes or municipalities may undertake shared functions either separately or jointly with the central government, when this is required in order to ensure achievement of a national standard for that service. Competencies of communes/municipalities for these functions as well as the relations between the local govern-
ments and the central government will be regulated in each case by specific laws and regulations, which have yet to be issued.

Beginning in January 2002, communes and municipalities may undertake any of the following shared functions:

1) Pre-school and pre-university education;
2) Preventative healthcare services and the protection of public health;
3) Social assistance, poverty alleviation, and the functioning of the related institutions;
4) Public order and civil protection;
5) Environmental protection;
6) Other shared functions as described by law.

Up to now, regarding their shared functions, local government units have only carried out the maintenance operations in and the supply of equipment to the institutions, which have shared functions and which are financed through block grants given by the central government. The Law on Intergovernmental Fiscal Relations proposes that, to the extent not otherwise specified by law, the central government may require a local government to undertake a shared function jointly or independently, provided that the local government and the central government first agree on the following matters:

a) The tasks to be performed by the local government.
b) The required methods and procedures for carrying out these tasks.
c) The respective financial obligations of the local government and the central government for performance of the tasks.

Delegated Functions

Delegated functions are functions of the central government or other central government institutions that, by law or by a contractual agreement between the central government and the local government unit, are assigned to the local government for performance in a manner and to a degree determined by the central government or other central government institutions. In any case, the central government guarantees necessary financial support to the local government units to exercise delegated functions and powers. The local government units may, at their own initiative, commit their own financial resources to the performance of delegated functions in order to achieve a higher level of service in the interest of the community.

According to the local government, delegated functions can be either mandatory or non-mandatory. If they are mandatory, they must be explicitly described as such in a law. The law should also clearly and fairly determine the necessary funds for carrying out this function and the way these funds are going to be transferred or disbursed to
the local government account. In the case of non-mandatory delegated functions, there should be a mutual agreement between the commune/municipality/region and the central government authority.

According to the draft Law on Intergovernmental Fiscal Relations, a local government may cease the performance of a non-mandatory delegated function at the end of the time period specified in the agreement, provided that, if an agreement extends beyond the fiscal year, the local government shall notify the central government of this at least ninety days prior to the time period specified in the agreement.

If an agreement does not extend beyond the end of the fiscal year, the local government may terminate the performance of the function at the end of the fiscal year without prior notification of the central government.

1.4.2 Functions and Competencies of the Region

The region, as a local government unit, has its own functions that consist of developing and implementing regional policies, of harmonizing these with the national policies at the regional level and of any other exclusive functions given by law. In addition, each region may perform any functions delegated to it by one or more communes or municipalities within the region, according to an agreement between the parties.

The region can also perform functions delegated to it by the central government. The central government may delegate a function to the region if it guarantees the region financial support for the provision of this function. The function cannot be delegated without a law or a mutual agreement.

Until now, the law has assigned more functions to municipalities and communes than to regions. Therefore, it can be said that municipalities/communes have a stronger position. On the other hand, regions are very new units of local government and it can be expected to take some time to define their profile. As a new administrative structure, the regions are in the process of establishing the appropriate staff.

The role of the region is more specific, for example, in the case of communes since they do not have sufficient budgets for the maintenance, repair and construction of rural roads. Under the administration of the region, there is the Rural Road Enterprise that is responsible for managing funds for the rural roads. It administers about 177 km of national rural roads, but its budget does not contain the item “investment.” It was established at the beginning of 1999 and is in the process of setting up the administrative structure. Until now, this enterprise did not possess sufficient assets and staff (administrative and workers) to implement the project by itself. A third party performed the job on a contractual basis.

An inventory of the rural roads is in process. It is estimated that there are about 270 km that are currently under the administration of communes. Considering that
communes do not have technical staff or even a procurement commission for construction projects, it is under discussion that the entire rural road network be administrated by the above-mentioned enterprise.

Currently, the remainder of rural roads are under commune administration. Due to a lack of funds, the infrastructure situation in rural areas is bad. If additional funds are needed to repair a road or construct a bridge, a commune must submit a formal request to the region’s council. If the region’s council approves it, the request goes to the Ministry of Local Government, which again submits it to the Council of Ministers in order to be included in the next year’s budget for public works. If the funds are approved, they are channeled to the respective Rural Roads Enterprise.

In the region of Tirana, there was a case where some funds were allocated directly to communes to improve road infrastructure. However, this action seems to be more of “a political action” than a real financial support to the commune.

Table 1.2 below shows the structure of local expenditures by functions:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>47.59</td>
<td>32.65</td>
<td>41.51</td>
<td>39.78</td>
<td>42.51</td>
</tr>
<tr>
<td>Health and social</td>
<td>34.93</td>
<td>20.91</td>
<td>36.42</td>
<td>34.41</td>
<td>67.97</td>
</tr>
<tr>
<td>Public services</td>
<td>6.622</td>
<td>6.439</td>
<td>10.53</td>
<td>9.481</td>
<td>144.14</td>
</tr>
<tr>
<td>Administration</td>
<td>8.252</td>
<td>38.16</td>
<td>9.081</td>
<td>15.23</td>
<td>214.61</td>
</tr>
<tr>
<td>Culture and sports</td>
<td>2.602</td>
<td>1.839</td>
<td>2.455</td>
<td>1.107</td>
<td>–27.44</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>70.51</td>
</tr>
</tbody>
</table>

1.5 Local Government Finances and Financial Management

Local government budgets have two main revenue sources: own revenues and central transfers. (Borrowings also exist in principle, but they cannot be considered as revenue.) The relation between the two is shown in Table 1.3).
Table 1.3
The Revenues of the Municipalities [%]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>A Own revenues</td>
<td>3.78</td>
<td>1.72</td>
<td>2.76</td>
<td>3.70</td>
</tr>
<tr>
<td>B Transfers</td>
<td>96.22</td>
<td>98.28</td>
<td>97.24</td>
<td>96.30</td>
</tr>
<tr>
<td>1 Conditional</td>
<td>96.22</td>
<td>98.28</td>
<td>97.24</td>
<td>86.60</td>
</tr>
<tr>
<td>2 Unconditional</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>9.70</td>
</tr>
</tbody>
</table>

A. Own Revenues

Communes and municipalities may generate revenues from local taxes and local fees as well as other sources defined by law. Table 1.4 shows a breakdown of these.

Table 1.4
Revenues from Local Taxes and Fees
[ % of Total Revenues]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Own revenue</td>
<td>3.78</td>
<td>1.72</td>
<td>2.76</td>
<td>3.70</td>
</tr>
<tr>
<td>Of which taxes</td>
<td>0.50</td>
<td>0.32</td>
<td>0.43</td>
<td>0.97</td>
</tr>
<tr>
<td>Local fees</td>
<td>2.55</td>
<td>1.17</td>
<td>1.96</td>
<td>2.49</td>
</tr>
<tr>
<td>Other revenues</td>
<td>0.73</td>
<td>0.23</td>
<td>0.37</td>
<td>0.24</td>
</tr>
</tbody>
</table>

Local Taxes

- local taxes and levies on movable and immovable property, as well as on transactions related to them;
- local taxes and levies on the economic activity of small businesses and on hotel occupancy, restaurants, bars and other services;
- local taxes and levies on the personal income derived from donations, inheritances, wills and from local lotteries;
- other taxes and levies set by law.
The analysis of the fiscal situation of local governments in Albania up to 2000 shows that the tax base and tax rates have always been set in a separate law approved by the Albanian Parliament, with the local governments having no right to make changes or to not implement any of them. This situation is still present, even though the Law on Local Government has determined that beginning on January 1, 2001, communes, municipalities and regions have the option to not implement a local tax, as defined by law, in its jurisdiction. (A new law is in process and it is expected that a new framework regarding the fiscal authority of local governments will be ready by next year.)

User Charges

The Law on Local Government defines the right of local governments to generate revenues from local fees for:

- public services they provide;
- the right to use local public property;
- the issuance of licenses, permits, authorizations and other documentation given by the local government.

Beginning January 2001, they have full authority to set local fees and the method for their collection and administration, in compliance with the general national policies and principles (see table in Annex 1).

Other Sources of Local Government Revenues

Local governments are entitled to generate revenues from their economic activity and from the rental and sale of property. Although this opportunity is determined by law, they are not present in practice.

Fines are another source of local revenues. However, the corruption of civil servants and especially the lack of a municipal police force have made it difficult to collect fines.

Gifts, aids or donations are not directly linked to the local inhabitants (taxpayers) and are not permanent sources. They do not have a significant effect on total local revenues. Furthermore, grants and donations are given in kind (equipment, computers, etc.) mainly for improving job conditions. However, there are a number of foundations and international organizations operating currently in the country, which provide funds to local communities to improve public services. The Albanian Development Fund is one of the most active.
B. Central Transfers and Shared Taxes

**Conditional Transfers**

Central transfers represent 90% of the local revenues in which conditional transfers dominate. The amount is decided each year in the State budget law, as part of the line ministries’ programs that are to be implemented at the local level. The bulk of conditional transfers across sectors has been allocated to the education sector, which prior to 2000 received more than 40% of all conditional grants.

Local governments do not have a chance to influence decisions on the targets for these grants. There are several limitations and specifications for using them exclusively for earmarked projects. The line ministries plan local expenditures as well, but they are only based on some standards that are not linked to the local conditions and needs. Furthermore, there is only limited consultations with local governments. The legal framework (the Law on the State Budget and on the Local Budget) was not clear about the role of transfers, the method or the criteria for their calculation.

According to the National Strategy of Decentralization, conditional transfers will shift gradually from strict conditions and small projects to more general conditions and larger projects and sectors. It is expected that considerably greater resources will be put under the control of local governments. This would alter the vertical imbalance over resources. Existing conditional transfers for specific expenditure items such as salaries and investments could take the form of block conditional transfers (and not specified by item).

However, since the education and health expenditures can have important spill-over effects and they are key tools of the central government to alleviate poverty, conditional grants would be still used in these fields. After several years, they may be converted to block allocations with spending limited to a particular sector, but without the line ministry determining exactly where they are to be spent.

**Unconditional Transfers**

From March 1998, part of the central transfers has been provided as unconditional transfers to fund operating expenditures and certain investments (reconstruction and maintenance).

According to the National Strategy of Decentralization, the unconditional transfer will include the following:

- A transfer of vertical compensation based on the ratio of responsibilities and functions between the central authorities and local ones to be used for general and non-targeted support of expenses for public services and functions of local government.
• Equalization grants to support those local governments that have an insufficient local revenue and resource base.

For an undefined period, the total amount of unconditional transfers will be decided each year in the State Budget Law. This is because the dynamics and instability of public finances makes it impossible to define a unique formula connecting the value of the unconditional transfers with the total of the state budget expenditures.

**Shared-Taxes**

Until 1998, the tax on property (on land and buildings) was a shared-tax divided between the central and local government in a ratio of 40/60%. This tax has only been partially implemented: for the tax on building. Since May 1998, the tax on property has become a local tax since no shared-tax exists in Albania.

The National Strategy of Decentralization recommends that:

• 15% of total annual incomes from personal income taxes and
• 5% of total annual revenues generated from corporate taxes be transferred to local governments unconditionally.

This revenue sharing will be effective by 2003.

**C. Borrowing**

From January 2002, local governments have the right to borrow for project investments. The previous law declared that local governments only had the right to borrow from the state budget in order to finance investment projects, but this provision was never implemented for several reasons (mainly due to a lack of regulations and a lack of a law on local government properties).

The Law on Intergovernmental Fiscal Relations proposes that, with the approval of the Ministry of Finance, the total annual amount of debt service of a local government may not exceed 10% of the total annual revenue, excluding conditional transfers and revenues from asset sales.

**D. Revenues of the Region**

Regions shall obtain their financial resources from regionally generated revenues (regional taxes, regional fees, others) and from national sources (shared national taxes, unconditional transfers, conditional transfers) in a way similar to that of communes.
and municipalities. In addition, they obtain fees from the services they provide. Since the region was established only a few months ago, the needed regulations are in process. Accurate and comprehensive statistics do not exist.

2. LOCAL GOVERNMENT BUDGETING (FISCAL PLANNING)

According to the Albanian Constitution, “principles and procedures of draft budgets as well as of their implementation are defined by law” (Article 159).

The preparation of central and local budgets is based on principles defined by the Law for Preparing and Implementing the State Budget in the Republic of Albania, No. 8379, dated July 29, 1998. According to this law, the state budget is the annual financial program. It constitutes funds determined in the law, is approved by the Albanian Parliament and includes all revenues as well as expenditures of central and local governments.

The Ministry of Finance determines the policies, procedures, parameters and terms that all budgetary institutions (both central and local) have to use in order to prepare draft budgets. Every year at the beginning of July, the Ministry must issue instructions.

There is a timing difference between the approval process of the state and local budgets. Local authorities cannot give the final shape to their budgets until the central transfers are approved in the annual state budget (by late December). Only after approval of the central budget can local authorities “re-approve” their budget for the next year.

2.1 Strategic Planning and Short-Term Budgeting at the Local Level

So far the practice of local budget preparation has shown that the local budget is only an expenditure plan designed to fulfill the most urgent needs of the community. The opinions or decisions of local officials were the only inputs to the local budgets.

However, the issue of preparing development plans is in focus in many cities. Supported by foreign experts or assisted by Albanian organizations, they have conducted a strategic planning process and prepared short- and medium-term development plans. A USAID-funded project (PAPA) and the Institute for Development Research and Alternatives (IDRA) have assisted several municipalities in the preparation of these plans. One of the significant aspects of this process was that it was participatory in nature, with the work coordinated by a specific commission consisting of governmental institutions at the local level and all interested groups in the community.

Local governments are solely responsible for the preparation of development plans. (Standardizing this process and the related forms would be helpful to the municipality,
especially during the budget preparation process.) Implementation is the responsibility of the elected and administrative staff of local government and success depends on their willingness.

In the three local governments surveyed, none of them had a written development plan, despite the fact that they considered it to be very important and necessary. Some efforts have been undertaken in the Municipality of Tirana to define priorities. A real and achievable development plan needs more capacity and expertise than the administrative staff possesses. Foreign assistance is also needed. Another concern for the managers of this municipality is that the plan has to have the consent and support of the citizens.

In Kamza Municipality, such a plan does not exist, but a list of priorities has been prepared mainly based on the vision of the new mayor and his staff with regard to the most urgent needs. Building a new retail market, lightening the main road and reconstructing the local sports facility were considered the first priorities for 2002.

Considering the Medium-Term Expenditure Framework agreement with the IMF, both the central and the local budgets must be prepared for the next two years, based on an inflation estimate of 3%. Initially, such a process would appear to correspond to the principle of multi-year budgeting. However, practically, the figures provided were only simple calculations to fill some standard tables.

2.2 Capital Budgeting

Many Albanian cities are focusing on infrastructure in order to foster economic development, to maintain public health and safety and to reduce environmental dangers. Capital planning and budgeting is a means to improve the process of making major investment decisions. Currently, the budget in Albanian cities for capital investments is a part of the annual operating budget. There is no separate capital budget. These items are listed as capital expenses or investments in the budget.

However, a number of municipalities in Albania are encouraged to establish a separate capital program and budget, considering that the future year implications of this budget are critical for planning service flows. In order to perform capital planning, budgeting and financing, reliable information and sound analytic procedures are needed.

In reality, local governments do not have authority over investment funds. Though the local governments can best foresee and approve projects that are useful for their communities, the Ministry of Economic Cooperation and Trade, the line ministries and the Ministry of Finance decide what projects will be financed. Moreover, a lot of problems have been encountered in the bureaucratic procedures for approval or imple-
mentation. Often the line ministries decide on the bid documentation and even conduct some of the bidding procedures themselves. The local governments are responsible only for the project implementation. They are not involved or consulted even in the case of big investment projects, which have an impact on many tasks performed by the local government (employment, roads, utility, etc.).

Annually, the local governments and all ministries have to present their needs for investments by August 20 to both the Ministry of Economic Cooperation and Trade and the Ministry of Finance. In the presentation of the investment projects in conformity with the format requirements provided by the Ministry of Economic Cooperation and Trade, the key issue is the necessity for implementing an investment. This ministry prepares the standard requirements for the projects and the types of investment and sends it to all ministries, both central and local agencies and institutions. The requirements include:

- a project description;
- cash flow projections based on the progress of the project implementation;
- the local portion of total funding.

This procedure applies to the capital investments financed by conditional transfers that are allocated by the central government.

In addition, the local governments can also undertake investments with the use of its own funds (through matching funds). Beginning in January 2002, local governments will have the right to obtain loans for investments. In addition, they will have other possibilities to increase funds for financing investments by selling immovable properties. However, these options need to be further defined.

2.3 Basic Structure of the Local Budget

The budget is the basic document stating the policies, planning and control for the local authority. At first sight, the budget represents performance indicators for activities, programs and services that the local government will carry out during the calendar or fiscal year. Until now, legislation directing Albanian local finances consisted of the Law on the Preparation and Implementation of the State budget of the Republic of Albania, No. 8379, dated July 29, 1998; of the Law No. 7776, dated December 22, 1993, and amended by Law Concerning the Local Budget, No. 8399, dated September 9, 1998; and of the annual guidelines provided by the Ministry of Finance for “the preparation of the next budgeting year.”

Local budget approval is based on the principles of local autonomy, of uniform standards of accounting and of a balanced budget. Local governments have full authority to use their own budget funds, the unused part of which can be carried over
into the next year. On the other hand, conditional transfers are only allowed to be used for the purpose for which they were given and in accordance with the rules fixed by the central government.

According to the law on local government, some local budget related issues are expected to be changed and improved; these amendments will be defined in the Law on Intergovernmental Fiscal Relations. However, the main principles have been determined in the national strategy with the stated intention of giving local governments the needed fiscal autonomy to be fully responsible for their competencies. In this regard, the local budget will be a unified budget containing a forecast of revenues and expenditures for the next two fiscal years. One interesting point, if it is fully implemented practically, is that local governments will approve their own budget whether or not the central budget is approved, with any necessary modifications being made after the State budget is approved. In addition, the local governments will negotiate with the line ministries during the budget preparation process concerning the investments in their jurisdiction, which will be determined specifically in the Law on the State Budget. With regard to the local budget structure, the operating and capital revenues and expenditures will continue to be shown separately, while the concepts of an independent and conditional budget will be phased out.

Units of Fiscal Planning

Each department, institution, or enterprise of a municipality/commune is a basic unit for fiscal planning. For example, the budget for road maintenance—to be carried out by a municipal enterprise—is prepared for approval by the responsible institution (department of public services) as a basic unit of fiscal planning. However, if a private firm is chosen to repair a road, the budget is based on the contract. In this case, the salaries for the municipal employees (experts) responsible for road maintenance, but not employed in the road municipal enterprises, are included in the municipal budget (the part of salaries) and not in the budget prepared for this specific program. This practice does not provide an opportunity to calculate accurately the cost per kilometer of roads maintained. The same situation applies to cultural programs and activities. A part of the local budget is prepared for the municipal institutions, such as libraries, sport clubs, etc., and some other funds are calculated for specific projects of the municipality (sponsorship of activities).

Presentation of expenditures and revenues is made in conformity with the uniform budget classification structure defined by law and also used by the central government. Local governments in Albania currently use the line-item budget format. During the budget preparation, local specialists have to list how much will be spent on every item used by departments and municipal enterprises.
Both the independent and conditional components of local budgets have been consistently divided into four main spending categories:

- “Salary”—net payments for employee salaries;
- “Social Insurance”—payments of social and health insurance for local government employees;
- “Operating Expenses”—funds for materials, services and allowances;
- “Investments”—projected expenditures for capital investments.

Within these broad categories, expenditures are classified by “object of expense” or “article” which identifies the nature of the goods and services purchased. These articles include:

- Personnel compensation and benefits;
- Social and health insurance contributions;
- Operating and maintenance;
- Transfers to the independent budgets (local government and pension fund);
- Capital Expenditures;
- Subsidies;
- Social benefits;
- Unemployment payments;
- Other transfers to individuals, non-profit organizations, etc.;
- Interest payments.

Each category is further broken down into sub-object and even sub-sub-objects. Once the council approves the budget, the departments can begin procuring the authorized goods and services.

The guidelines of the Ministry of Finance for preparing the 2001 budget defines a new economic classification. It provides for better planning and management of public revenues and expenditures according to their economic nature: salaries and contributions, operating and maintenance, investments and transfers. This change was necessary because an analysis of the expenditures for the previous years had shown that operating expenses made up 64.5% of total expenses, and from this 34.6% went on personnel expenditures.

The new accounting plan is a revision of the previous document and is more detailed with respect to items and sub-items. According to specialists in the finance offices in the units in this study, bookkeeping requires more work now, but at the same time the analytical data helps to keep track of the cash flows related to the various the budget items during the year. To some extent, it also provides explanations concerning the cost-effectiveness of various items.
Using service cost estimates is very rare. Some efforts have been made in Tirana regarding the cost analysis of cleaning services. Two private companies provide this service in Tirana. It was agreed with them that the funds allocated for 2001 be based on service costs. Some calculations were made on the unit cost of this service, but the practical implementation raised several problems, especially after the evaluation of quality and periodic payments for the work. Moreover, the specialists of the municipality could not do a cost analysis themselves, but instead relied on specialists from the private firms for this.

Off-Budget Units

Most of the local public services are carried out by municipal enterprises (the water and sewer systems, parks, waste management, etc.). They operate as commercial companies with limited liability (totally owned by the state) and function as self-financing units. Their revenues consist of the funds received from the municipality and charges for the services they provide. Practically, there exists substantial confusion in this area, with some national ministries continuing to exercise effective day-to-day control over some enterprises.

In Tirana, there are about 50 enterprises that are “dependent” on the city. They are referred to as municipal enterprises, but no member from the municipality is included on the management board. They have a separate budget and their own account in the treasury system. For providing the service, the municipality allocates a part of its revenue to them. For the first time this year, these kinds of enterprises must submit financial statements to the Tirana municipality. This is the result of a requirement for local governments to register all assets located within its territory, a process that will aid in the implementation of the law concerning the transfer of public properties to local governments.

In the near-term, among the most important actions to be taken is to ensure that the existing state enterprises be given the responsibility for providing basic infrastructure services (e.g., water supply or waste removal) that are under the control of the local governments. This would permit and motivate them to find new and more efficient ways of management.

However, at this time, it is not clear what the role of the local governments should be in the privatization of these enterprises. Assuming that these enterprises should be under local control, there does not exist legislation describing the nature or the extent of the local authority over the enterprises, nor are the procedures specified by which authority should be exercised.
Attempts to Introduce New Budgeting Techniques

A few elements of program budgeting have already been introduced in Tirana. The city has set aside part of its budget to sponsor primarily cultural and sporting activities, even though these costs have not been included in the relevant items. This type of spending is not detailed in the accounting because the municipality is not responsible for the implementation of the program. In fact, a private company is doing this.

Two specific projects undertaken by the Municipality of Tirana are the reconstruction of the building facades along the Durresi road (one of the roads entering Tirana). The project plan was prepared by the municipality and submitted to the Albanian Development Fund, which financed 95% of the project. The remainder of the funding is provided by the municipality initially, but the inhabitants will be required to pay a symbolic amount of money. This case also represents another element of the management culture that the managerial staff of this municipality intends to introduce. Direct involvement of the community in these kinds of projects ties them more closely to the local government and raises interest in community development.

Another case of cooperation based on joint projects is in the Municipality of Kamza. An agreement between the municipality and Co-Plan is in progress. Based on a project prepared by municipality, Co-Plan is financing the construction of a green area in the center of the town. In addition, the Albanian Development Plan intends to finance a program prepared by the municipality for the reconstruction of the stadium. The municipality has paid the required 10% of the total financing from its own revenues planned for investments, and this is the only action registered in the accounting system.

2.4 Participants in Local Budget Preparation

According to legislation, the participants in the local budget preparation are as follow:

- **The city council** determines the budget priorities, approves and makes changes approved by a majority of councilors, approves the actual budget and the financial accounts of the previous year.

- **The head of the local government** issues the guidelines for budget preparation, prepares and presents to the city council the draft budget, follows the implementation of the budget approved by the city council, reports on the budget progress, proposes changes needed during the year, prepares the annual report concerning the budget execution and the financial situation of the local government unit.

- **The permanent economic and finance commission** is a part of the council. In cooperation with the other commissions, the head of the local government,
and the finance department, it follows the procedures of budget design, participates in the debate and analysis of the budget, submits the community opinions and suggestions and proposes changes and improvements to the budget. In practice, the role of the committees is purely formal and, in many cases, the draft budget proposed by the mayor is examined and approved directly, without any significant comments.

- The financial office of the local government prepares guides and specific documents needed for the budget preparation, cooperates in the preparation of budget requests with other departments and enterprises that are subordinate to it, prepares the draft budget and organizes the budget implementation.

- The heads of other departments in the municipality/commune and the enterprises subordinate to them foresee and prepare the expenditure requirements and identify the most important issues to be resolved.

- Civil society organizations and citizens should play a substantial role throughout the budget-making process. It is not enough to simply publish the budget in the local newspaper once it is adopted. Citizens should be asked which services should be strengthened and what level of priority they attach to various services. Frequently local officials rely largely on the perceptions of the department and enterprise management or of a few vocal citizens to establish budget policy and service priorities. In both cases, the real preferences of the citizens may be distorted. One of the cornerstones of a democratic society is the openness of the government; one of the most important areas in which to display this openness is through the budget process.

A general opinion is that average citizens are interested only in their own problems (there are so many of them in Albania) and are not concerned with those problems faced by the community as a whole. Under these conditions there is little involvement even in the budget related issues. On the other hand, even though the law stipulates that the city council meetings be open to the public and that public hearings be held on budgeting issues, little efforts are made by the local governments for this.

A huge number of non-governmental organizations (NGOs) are operating currently in Albania and some of them have sufficient capacity (expertise and staff) to assist local governments during the budgeting process. Nevertheless, the reality shows that even large municipalities do not consult or invite NGOs to assist in this process.

Role and Functions of the Financial Office

Financial Offices are established in all local governments. In the Municipality of Tirana, the Financial Office is well organized and has sufficient personnel that do not perform secondary functions. Offices for taxes, fees and audit control operate in these municipalities along with financial offices.
The division of functions carried out by these offices is shown in Tirana Municipality.

Financial Office:
- Drafting and implementation of the local budget;
- Control and managing payments and collections;
- Preparation of the balance sheet and financial accounts;
- Analysis and financial reporting;
- Studying and proposing increases in local financial sources;
- Internal financial management;
- Relationship with the State budget and financial institutions at the district level.

Taxes and Fees Office:
- Assessment of property tax and local taxes based on own data and those officially obtained from the Office of the Register of Immovable property, from the tax office of the district and from other central or local institutions;
- Calculation of tax obligations and the related billing to each taxpayer;
- Accounting for receivables from taxpayers and obligations to tax authorities;
- Preparation and sending of necessary information to tax authorities;
- Registration, follow up and reporting of tax and fee collections;
- Relations with the financial office, the district tax office and the tax authorities.

Audit-Control Office:
- Control of administrative units of the municipality, of the companies and institutions subordinate to it, and of other local bodies within the territory of the district (the latter is exercised only by the municipalities at the district center);
- Control of economic and financial results, of the efficiency of funds usage, of compliance to financial discipline and legal framework in general.

2.5 Major Stages of Budgeting

The timetable for preparing, analyzing and approving the budget of local governments is defined in the Law on the State Budget in the Republic of Albania, No. 8379, dated July 27, 1998. According to this law, the Ministry of Finance issues the guideline for preparing the draft budget to all budgetary institutions, including the local governments. This guideline defines the form, data, design criteria and deadlines for presenting the draft budget.

Organizing the Process

The head of a municipality/commune defines guidelines, criteria and necessary forms for the enterprises/institutions under the control of the local governments. He/she designates the responsible people and institutions and establishes a timetable for presenting the draft budgets.
Standardized forms and worksheets ensure that all requests are submitted and reviewed on a comparable basis and are easily summarized for executive and legislative review and publication.

Article 19/7 of the Law on Local Government defines what the local government budget should include:

- Revenue and expenditure tables with the following items:
  - The own locally generated revenues of the local government unit and revenues from national sources.
  - Detailed expenditures in accordance with the functional and economic classification system.
  - Reserve fund that does not exceed 3% of total expenditures.
- Forecast of revenues and expenditures for the next two budget years.
- Forecast of expenditures for investments with the following information:
  - Financial purpose.
  - Financial plan, including methods and sources of financing.
  - Annual expenditures to service debt, if it is used.
  - Cost estimation of operating expenditures related to the realization of new investments.

**Revenue Forecasting**

The first step undertaken by local governments is the forecasting of revenue to be received during the next fiscal year. Practically, the revenue estimate is based on revenues actually realized during the previous year, adjusted for inflation. (This method was used also in 2001.) The same method was used for block grants.

With regard to the independent project-budget design, this process generally starts before the Ministry of Finance decree is issued. Taking into account that this budget is based on the resources and potentials of municipalities/communes, they feel free to make predictions.

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In Tirana, the new staff has dedicated a lot of attention to revenue monitoring. The strengthening of control over economic entities to hinder tax evasion, the implementation of punishments according to law for tax evasion and the careful selection and training of tax officials are actions that appear to have produced positive results for this municipality.

The changes that are expected regarding the competencies of local governments to decide the tax level will help them a lot. It seems more difficult for the Kamza Municipality and for Baldushk Commune to improve the structure of tax collection. This is not only because they lack a special structure for this purpose, but also because the tax paying culture is low in these regions. For these local governments, the establishment of temporary taxes has been very difficult, and it is expected that it will be difficult even to determine the tax level.
Until now, there has not been a clear position of the local governments during this phase of the budget preparation, because the line ministries defined the amount of conditional transfers to be allocated at the local level. Some of them claim that the specialists at the line ministries, who have the right to decide the final transfer amount, do not take the preliminary work of the local specialists into consideration. Conditional transfers contain the most surprises because of the difference between the requested and the approved amounts.

Expenditures Forecasting

The amount of expenditures is impacted by the revenue estimates since, by law, municipalities must have a balanced budget. Local government expenditures follow the criteria defined for the State expenditures. For personnel expenditures, the basic parameters are the number of employees and the level of salaries. For the category “goods and other services,” the forecast of expenditure is calculated on the basis of planned expenditures for 2000 and adjusted by an assumed 3% inflation level.

The budget consists of current expenditures and capital expenditures, which are kept separate. For meeting the responsibilities defined by law, it is clearly stipulated in the law that local governments are not allowed to fund capital expenditures with resources appropriated for current expenditures, and vice versa.

- **Operating expenditures** consists of the following: salary funds (expenditures for salaries, rewards, bonus), social contributions, maintenance and furnishing, expenditures for goods and services.
- **Capital expenditures** include expenditures for capital investments and reconstruction. However, there is no clear definition of what constitutes investments or of the distinction between new investments, renewal and renovation.

*In general, the process follows this schedule:*

- July 10. The Ministry of Finance issues guidelines for preparing the budget for the next year. In cooperation with the Ministry of Local Government, it prepares the other guidelines and regulations for budget preparation by local government authorities.
- The finance department/office analyzes the requests of the service departments of the municipalities/communes as well as of their institutions and enterprises; it then forecasts the revenues and designs the draft budget.
- July 10–August 10. The local finance department prepares the draft budget.
- The head of the municipality/commune together with the finance department analyzes the draft budget and presents it to the city council.
- The city council (all the commissions, but especially the finance commission) analyzes the draft budget.
August 10. The draft budget goes to the budget branch in the respective Region (the budget portion contains the forecasted delegated budget and the requested amount of block grants). The draft budgets of other central institutions go to the Regional budget branch as well.

The budget branch matches the budget inputs of each municipality/commune with those determined by each line ministry/central institution and sends it to the Ministry of Finance. The deadline is August 20. They send this documentation to the line ministries as well, since the local conditional budget is included in their budget.

A copy of the draft budget is also sent to the respective prefecture. The prefecture makes a procedural evaluation of the draft budgets, prepares a summary of them, and sends it to the Ministry of Local Government.

Line ministries study the requests of local authorities and present their suggestions/opinions to the Budget Department in the Ministry of Finance. The deadline is September 1.

- The Ministry of Local Government gives suggestions for the number of employees, the salary funds, social insurance and health contributions and grants/transfers.
- Line ministries give their suggestions for the amount and structure of transfers, such as are included in their budgets.

From September 10–25, the draft budget of each ministry is discussed.

During October, the Ministry of Finance presents the draft state budget to the Council of Ministers, including the draft budget of each local government unit.

In November, the draft state budget goes to Parliament to be evaluated and approved.

After the state budget is approved, the local city councils must re-approve their local draft budgets in order to reflect any changes made, especially concerning grants and transfers. This is because the amount requested by the municipality/commune differs significantly from the amount approved. The decision of the city council to approve the budget is the official document authorizing the mayor or the chairman of the commune to undertake financial activities.

Not later than twenty days after the President of the Republic signs the law of the budget, the Minister of Finance delivers the state budget both to the central institutions and the local government authorities.

Aspects of Drafting the Local Budget

Many issues effect the timing and deadlines for budget preparation, such as:

- Central government laws establishing the budget submission deadline.
- The size of the local government and the time needed to prepare the budget.
- Local officials’ capacity.
a) With regard to *the laws and regulations*, they are the same for the municipalities and communes. They define the same procedures and deadlines for the preparation and presentation of the budget in municipalities as well as in communes.

b) *The size of local governments* has to some degree an impact on the volume of work facing the municipality/commune staff and especially the financial department during the preparation of a good budget within the deadlines. This is a problematic issue especially for large municipalities. The main consequence is the quality of budget.

A concern for the finance office specialist remains the poor quality of draft budgets that come from the dependent local enterprises. They prepare the budgets based solely on an incremental change from their current year’s budget and far removed from using the budget as a management or planning tool for limited revenues.

c) *The capacity* of people to perform the assigned task is one of the main problems. There are so many cases, not only at the local level but also at the central institutions, in which the qualification level of the person assigned does not fit the job. This problem is more acute at times when general elections (parliamentary or local) are held.

**Local Budget Approval**

After the central budget is approved, the local government must “re-approve” its budget. This procedure is a consequence of several factors: (1) central government transfers are not calculated based on predetermined criteria and standards (formula), primarily due to potential fluctuations in the economy and (2) the amount approved by each local governing body can be different from the amount apportioned in the central government budget. Regarding the latter, local governments do not have any power to influence these decisions, apart from changing the numbers in the draft budget to reflect the line ministries decisions. This problem becomes more sensitive for small municipalities and especially for communes, which are basically “financed” by grants and conditional transfers from central government.

Although local governments do not have authority to issue laws, they do have authority to issue normative acts (decisions) effective within their territorial boundaries. Local governing bodies approve the budget through a local council decision. Once formally approved by council, the financial office executes the budget.

If a local government’s final conditional budget is not approved by December 31, which has occurred many times, the state budget provides monthly transfers for operations amounting to 1/12th of the previous year’s funding. The independent budget must be approved by March 15 of the budget year. As long as most expenditures and revenues are based on the conditional budget, local governments have little fiscal autonomy.
2.6 Budget Implementation

Cash Management Practices

The head of the local government, based on the decision of the city council, executes the local budget. The financial budget office has to organize, supervise and control the budget execution. In exercising their responsibilities, the specialists of the financial office are obliged to accomplish and supervise so that economic efficiency and sound financial management are achieved. They should be careful that the approved funds are disbursed at the right time and only for the purpose of effective economic administration.

- According to the law on the State budget and the law on the local budget, after the approval of the local budget by the city council, it is the responsibility of the financial office to carry out a more detailed planning on a bi-monthly basis of the expenditures of the independent budgets and of the block grants and transfers, after taking into account the quotas defined by the Ministry of Finance.
- The head of the local government approves the detailed plan of expenditures.
- The financial office sends these detailed documents to the relevant units (which have their own budgets) and to the budget branch in the Region.
- Before the fiscal year begins and before each bi-monthly period, the budget department authorizes the disbursement of the funds for a bi-monthly period from the treasury branch for the local governments and enterprises for which they are responsible.
- The treasury branch registers these bi-monthly transactions by unit for the part that has been disbursed. This includes expenditures that are funded from conditional/delegated budgets, from unconditional transfers from the state budget and from the local taxes carried over from the previous year.
- At the end of each month, the financial office of the local authority reconciles with the treasury branch the expenditures which will be financed from the revenues of the budget year and on that basis the treasury branch sends to the budget branch the request for authorization to go ahead with the expenditure from the accounts of the funds made available at the treasury branch.
- The budget branch approves and registers the request and issues an authorization, which transfers funds from the treasury branch to the account for local revenues.
- The financial offices of the municipality/commune, of the district council, and of the subordinate units (which prepare their own budget and submit their own payment orders to the treasury branch) initiate a transfer order or issue a check for the expenditure made within the limits of the funds made available
for the relevant period. The person who has given the order or a person authorized by him must sign the payment order. In addition, the supporting documents showing the commitment or the expenditure made should be attached.

- The treasury branch examines the documents submitted. If they are determined to conform with internal instructions, the funds are made available, the approval is attached and the payments through the bank branches are authorized.

**Treasury Procedures**

The periodical release of funds is the main tool to control budget execution. Through periodic release of funds, even the financial offices seek to:

- Avoid a premature exhaustion of appropriations before the fiscal year is over;
- Keep the budget in balance;
- Control deficits;
- Eliminate the need for supplemental appropriations.

Local revenues cannot be realized and expenditures cannot be financed without the authorization and approval of the relevant documents by the Budget and treasury branches. Formally, the treasury branches have to be sure that the payment order issued by the local governments is done in conformity with the respective budget and the person that has issued the payment order has the authority to do so.

In order to finance any expenditure, the local government must submit the following documents for approval by the treasury branch:

- Payment order;
- Contract or agreement between the local government and the supplier;
- A decision or the minutes of the relevant commission for the purchase of goods or services;
- Certificate indicating the payment by the local government of its electricity bills for the budget period;
- Certificate indicating the payment of fiscal obligations (VAT) by the supplier of the goods or service;
- The supplier invoice/bill which has been accepted by the local government;
- Document indicating the receipt of the goods at the warehouse of the local government.

The National Strategy of Decentralization has defined that funds to the local governments should be available only through the treasury, with the condition that it has to improve the procedures. In addition, the Law on Intergovernmental Fiscal Relations and other regulations have to give clear and precise definitions about the role of
the treasury system and the specific procedures it has to perform in relation with local
governments. The technical aspects of the surplus funds arising at the end of year must
be established. Currently, they are kept in the treasury branch without any interest.

The specialists of Tirana Municipality are very sensitive to this system. They have to perform a huge
volume of work, taking also into account the considerable amount of money from donations.
According to the Law, the treasury branch makes available these kinds of funds following the same
procedure as per other kinds of funds. One of the most tangible negative effects is that a number
of payments to the third parties are made in cash, especially with private entities.

Mid-year Changes (Repetitive Budgeting)

The request for making changes in the local budget is different for its two parts (condi-
tional and unconditional) when considering the overall procedure for their approval.
For conditional transfers, requests should to be submitted to the budget branch and
line ministries, which then make the decision. For changes concerning grants or their
own revenues, a reallocation of funds from one activity/article to another is the respon-
sibility of the Local Council and the budget branch must only be notified.

As was explained, the funds to local governments are released in quarterly and bi-
monthly periods. If a local government has used all available funds for the bi-monthly
period and it becomes “insolvent,” a formal request to the budget branch for addition-
al funds is the solution. But, if this occurs for the 4-monthly period, the formal request
should instead be sent to the Ministry of Finance, which makes the decision. To avoid
unnecessary bureaucratic procedure, it would be better to submit the request in both
cases to the budget branch. Such an idea/suggestion gets closer to the principle of
autonomy for local governments in Albania, but at the same time it damages the finan-
cial discipline the budget and treasury systems aim to implement. However, a middle
way should be found.

2.7 Information on the Budget

Statistical Information

The local government budget is prepared according to the guidelines of the Ministry of
Finance, including also a number of standard tables for calculating revenues and ex-
penditures. In sum, it provides some technical information following economic or
functional categories of expenditure, accompanied with a very brief explanation of the
figures.
The local authorities provide substantial statistical information to the specific State institutions. They provide cash flow data about revenues and expenditures to the Ministry of Local Government, to the budget department in the Ministry of Finance, to line ministries and to the prefecture. Despite this, there is a lack of information about the activities of the local governments. Even at the Municipality of Tirana, which has an office for information processing, the data it provides are insufficient. Actually, efforts are being made to reorganize this office, which will process various data concerning this municipality. In addition, there is also a lack of cooperation with other central institutions that process information. Problems exist also with INSTAT, the central statistical office in Albania, which provides very poor information regarding the activities of local governments.

Information on the budget should not be limited solely to monitoring the amount of money received and spent. The council and citizens have a right to know what is being accomplished with the public funds. Goals and objectives for service delivery should be reviewed. Statistics on work performed should also be collected and reported on in a comparative format. The number of services performed versus the projections provides valuable information on how well the municipality is doing. It also provides an additional analytical tool for determining where problems exist. If performance goals are linked to the expended funds, a cost per unit of service can be determined. The increase or decrease of the cost per unit of service can be a valuable tool to local government officials who are trying to improve the quantity and quality of services rendered by the municipality. This would make it possible to undertake the first steps towards performance budgeting, which is based on establishing and assessing these criteria.

Until now, no performance indices have been calculated. The first effort to conduct a public survey was done by the Urban Institute (a USAID-funded project). One of the main goals was to establish the Albanian National Performance Indices Database, which will provide a snapshot of how well municipalities and communes are faring across a range of public services and which will be available to all interested individuals, government officials and staff and/or representatives of other organizations.

Information to the Public

In general, the information contained in a budget document is very poor. There is no message from the head of the local government to the community on the major issues addressed in the budget, on the major obstacles or on the new initiatives and directions that the local leaders and staff will take during the next year. The entire draft budget document does not include more than five to six pages and contains only general explanations.

According to the law and the relevant guidelines on budget implementation, one of the duties of the local specialists is to prepare a short summary of the local budget to be made available to the public. Therefore, the law on the state budget defines that the
approved budget/figures must be published. The standard budget tables are generally accompanied by a brief narrative explanation (which to some extent is technical). To often, financial and budget officials who understand the budget document take for granted that others reading the numbers would understand them as well as they do. On the other hand, there is also the opinion that no matter how clear the budget document is, the citizens will not understand it. Thus, the process stops here, with no real information or usable publication being made available to the public.

2.8 Reporting on the Budget

Reporting on the budget execution is an essential part of the entire budgeting process. Numerous laws and regulations define specific requirements for the reporting procedures of local governments.

- Every month, the Financial Office submits to the mayor a report on the revenues and expenditures according to their source and nature.
- Every quarter, municipalities and communes report to the prefecture, which in turn prepares the summarized tables of realized revenues and expenditures for each local government according to the budget classification system and sends them to the Ministry of Local Government.
- According to the Law, each local government and prefecture has to submit periodical and annual financial statements to the treasury branches, to the Prefecture and to the Ministry of Local Government.
- By the seventh day of the following month, the local governments must send to the Prefecture the forms that indicate the revenues received and the expenditures made and signed by the treasury and budget branch. By the tenth day, the prefecture must send the summarized forms to the Ministry of Local Government.
- At the end of each month, the treasury branch of the region reports to the Ministry of Finance about the expenditures and revenues for each local government according to the structure of the budgetary classification system.
- The mayors of the commune and of the region report to their respective councils not less than twice a year about the budget indicators (mainly focusing on variances in revenues and expenditures from approved amounts) and also propose necessary changes according to their authority.

Despite its importance, the reporting process is usually considered to be a mere formality. Local officials are often obliged to complete forms and tables that must be provided to another institution. In their opinion, there are a lot of reports to be prepared and some of them are too formal and do not provide any interesting information.
Considering the overall reporting process, it is easy to find incongruences between the kinds of information provided by local governments to other state institutions, and the statistical information that these provide to the public. The lack of cooperation and coordination between them is evident and results in real confusion with regard to statistical data.

2.9 Auditing System

The Law on Local Government determines two types of financial control. (Articles 21 and 22).

- **Internal Financial Control**
  1) Each communal, municipal and regional council shall appoint a Finance Commission that shall act during the council mandate.
  2) The Finance Commission controls the revenues and expenditures made by the executive body, in compliance with the budget adopted by the local council. The executive of the local government shall report to the Finance Commission regularly during the year and shall provide all documents requested by it. The executive organ of the local government or its administration may not be a member of the Finance Commission.
  3) In order to perform its functions, the Finance Commission shall have full access to all accounting documents, including the tax rolls. The Finance Commission may request an external audit of the accounts be carried out by a certified accountant.

According to the Law on Local Government, in Albania, control offices must be established at each level of local government. Despite this requirement, the administrative structure has not been established yet in all local governments, especially in small municipalities and communes. Even in the established ones, their job description is too incomplete. They have prepared the schedule of controls to be performed during the year and have only partially carried this out. The results, which should be presented in a formal meeting of the managerial staff of the municipality and of the local council, are often unknown. Therefore, hiring additional and qualified staff for this significant structure should be another priority of local government reform.

*External Financial Controls*

Since May 2000, the prefecture has the right to exercise financial control over local governments under its jurisdiction. The focus of this control concerns funds from the
central budget. Therefore, relevant structures to perform this task not less than once a year have been established in prefectures. In general, the administrative supervision exercised by a prefect is a standard one. However, there are some cases where the control has been focused on the content of the acts and decisions and not on their legitimacy, but this has not been a problem for local governments.

Giving the authority to a structure (the prefecture) that is subordinate to the government is contrary both to the Constitution and to the basic principles concerning the decentralization of local government, which were accepted with the signing of the European Charter on Local Autonomy.

Apart from the prefecture, there exists the High State Control, the Ministry of Local Government and the Ministry of Finance to control the financial activity of local governments. For the surveyed municipalities/communes, the control from the Ministries was not carried out during the last year. However, these controls mainly focus on how the central government funds are used.

The High State Control remains the highest institution controlling the entire activities of local governments in Albania, including the entire local-government-related legal framework. Therefore, establishing a separate unit in this institution to specifically control and address local budgeting-related issues would be helpful and more effective.

According to law, each local government shall be subject to external financial control by central government authorities. This external control will be concerned solely with the legitimacy of operations and with the use of conditional funds.

3. MAIN CONCLUSIONS AND RECOMMENDATIONS

The decentralization process of local government in Albania is going through a significant and comprehensive reform following a strategic plan and based on the experience gained during the first decade of transition. During the next three years, legal reform will be completed and an evaluation will be made of the steps initially undertaken.

At the same time, the difficulties to be faced are linked with the low capacities of government at the local level, with the lack of sufficient resources in most communes, particularly in the mountainous rural areas, with the tendency of wealth to concentrate in a few, large urban areas, with weak citizen participation in community affairs, with the strong dominance of political interests over the community interest and with a strong tradition of a centralized state. In such conditions, the level of decentralization in practice will take a long time.

Such questions are addressed in the National Strategy for Decentralization. There are also echoes in some programs of the government and donors, which aim to strengthen the local capabilities for effective local government.
Technical Financial Issues

- Local government is affected by a large number of laws and other normative acts. This legal framework should be analyzed to identify the aspects that constitute a barrier for decentralization and which are in contradiction to the decentralization strategy and constitutional principles. The analysis should identify future actions. Those government decrees that can be easily modified should be addressed in this immediate phase. As defined in the decentralization strategy, improvements in the local tax and fee system as well as the use of unconditional transfers must still be made.

In addition, some other issues have to be tackled soon. A number of studies currently in process should be finished, not only to fulfill strategy deadlines, but also to realize the concrete legal framework/autonomy for local governments. Studies on delegated functions, on local public services, on local staffing requirements, on local police and civil protection and on the methodology for assessing the decentralization progress will be completed.

- Aside from fiscal and macro-economic policy issues, there are numerous technical issues to address in the design of the new system of local finances. These include items such as the mechanism, the process and the formula used for equalization grants, the administration of local taxes and fees, the local budget structure and process, treasury and cash management and the audit and financial accountability standards and procedures. At this point in the fiscal decentralization process, the purpose of the reforms is to provide substantive improvements and developments in the law on local finances and to ensure that the new system will be functional after the relevant laws have been adopted.

- Due in part to the disincentives for learning created by laws which function to centralize planning and budgeting, there is a general unfamiliarity with new budgeting techniques and a lack of skills at the local government level. Laws related to budgeting do not motivate the development of local managerial capabilities and, in fact, many contribute to weakening or restraining local capabilities to plan and administer expenditures. The current law is nothing more than a specified calendar of events and expenditures during the year. Thus, there is a need to introduce other budgeting techniques. For the Albanian conditions, an alternative for a local government may be to use a program budget with line-item detail for each program or a line-item budget with a description of every program. In the selection of the appropriate budget format or some “combination” of several of them, it is important for the budget to serve as a managerial “road map” for the municipality.

- The annual budget, with its classification of objects by expenditure along with the related accounting, reporting, control and audit systems, should be improved.
In the long-run, these systems should be converted into a performance-based system that allows managers and accountants to utilize both service performance and accounting data.

• A number of local enterprises that provide public services are currently operating in Albania. They are off-budget units and are operating through an administratively independent board. Local governments have no authority over them even though they may be required to pay the costs of their operations.

For maximum transparency of fiscal operations, information about off-budget activities of local governments should be included in the budget documents. A comprehensive study should be conducted about the future of these kinds of enterprises. If the main goal is the improvement of public services that these enterprises provide, they have to be controlled by the local government. The privatization process that has started must also delineate the role foreseen for local governments.

• The preparation of a development plan as defined by law is viewed as a good way to improve the budgeting process and produce a helpful document. However, there does not exist a standard procedure for their preparation nor in many cases a standard content. In order to get a real development plan that will provide a basis for improving the system by employing new budgeting techniques at the local level, some regulations should be adopted. Additional assistance (from foreign or domestic organizations) would be an aid for local governments in this process.

• There is no formal capital planning and evaluation process, nor are there capital budgets. Thus, without a planning process to smooth out investment expenses, local governments in Albania will continue to face difficulties in covering investment needs. The lack of capital budgeting and multi-year planning for capital investments at the local level has resulted in an overhang of unfinished projects and therefore a waste of scarce capital investment resources. A multi-year planning framework of recurring expenditures is not sufficient.

Technical Assistance and Capacity-Building

Efforts are being made in Albania to increase the institutional capabilities of local government officials to better serve their constituencies. Many international organizations that are working in the country have organized some very good programs to assist the local governments in many areas like budgeting, economic development and decentralization. Nevertheless, their efforts have extended to only part of the municipalities, while communes have received no assistance at all. In this situation, it appears very important to coordinate these efforts and to replicate and maintain them in other Albanian cities.
Considering the courageous reform undertaken in Albania, the following questions can be raised: Is the local administration professionally capable of implementing the new laws, especially the part regarding budgeting issues? What are the costs of bad financial management in local units? Does the administration of the local units need some training courses in financial management and specifically in new budgeting techniques?

Fiscal management and budgeting capabilities need to be in place. Efficiency at the local level both in a sense of cost minimization and responsiveness and accountability to taxpayers requires local budgeting and fiscal management capabilities.

- Once the Law on Intergovernmental Fiscal Relations is adopted by parliament, there will be a need for assistance to ensure the successful implementation of the new system of local finances. This assistance would focus on developing detailed systems and procedures at the local level in the area of financial management in general. It also would look at specialized training and skills development for the staff responsible for local finances. Technical assistance should also be focused on the issues of local budgeting, accounting and auditing.

  There is a need to develop some profiles for that assistance, including a statement of work and an estimate of the level of assistance required. These profiles will help the Task Force and the government in their dialogue with the donors regarding necessary support for the implementation of the fiscal decentralization reforms. However, it is important to recognize the limits of technical assistance to improve the efficiency of fiscal management as well as opportunities in this area.

- The idea of setting up a National Training Assistance Center is welcome. The needed laws and regulations should be adopted soon in order to provide trained people before or at the time the new legal framework related to local finances is adopted.

- The legal framework provides some flexibility. Generally speaking, those local officials who are familiar with the law and who have some creativity and initiative can improve the quality of life in their communities in ways not specifically mentioned in the law. Sharing experiences among local governments is a good and inexpensive way to improve managerial capabilities. Some experience exists and it has to be made explicit and disseminated.

- While the technical assistance cannot lead to the decentralization of authority or the provision of stable funding sources, the provision of concrete projects opportunities for the exercising of financial management skills can be accomplished. Small-scale public works projects, implemented in some local governments in Albania, offer an opportunity for local government officials to exercise management skills and to seek new funding sources.
Public Participation

Another question that can accompany the entire reform is how the opinions and priorities of beneficiaries of public services (taxpayers) are, or will be, involved in the decentralized local government, assuming that Albanian voters primarily vote along party lines without considering the programs of the political parties or the candidates?

The public should pay a substantial role in the budget-making process. It is not enough to simply publish the budget in the local newspaper once it is adopted. Citizens should be asked which services should be strengthened and what level of priority they attach to various services. A real democratic government should provide opportunities in the budget process for obtaining input from citizens, budget users, non-government organizations, local businesses and other interests.

- Local governments are obliged to involve the public in the decision-making process. Public input can be obtained in a number of ways, including public hearings, workshops, public meetings where governing bodies work on the budget, advisory commissions, informal conversations, roundtable briefings, TV and video presentations, opinion surveys, neighborhood meetings, office hours, letter writing, telephone calls and e-mail. The approaches are likely to differ depending on the size of the government. The budget calendar should identify specific opportunities for citizen input where government officials are available to explain issues and choices and to receive comments. These methods ensure that priorities are identified and that a more participatory democracy is developed.

- Publishing a budget summary in the local newspaper or distributing budget brochures and making the budget document available to any citizen who is interested in reading about it.

- Preparing a citizen’s guide (the budget in brief) to the local budget. It will explain what the budget is, how it is formulated, where the revenues come from and how they are spent, a description of how pay categories are determined, a summary of how block grants are allotted by the central government and how the local budget and central government budget processes inter-relate and finally and most importantly, the role of citizens and how they can contribute.

- The Law on Local Government defines the obligation of local governments to hold public hearings during the budgeting process. At least two public hearings are recommended. The first one is to be held near the very beginning of the process before the draft budget is developed and submitted to the city council. After the budget has been presented to the council, public hearings on the proposed budget are a good way for the council to gain an understanding of how the citizens feel about the various proposals and issues in the budget. It allows them to take the comments of citizens into consideration as they make budget decisions.
NOTES

1. Article 111 of the Constitution.
2. The entire reform undertaken in the field of local government has faced several problems, the most significant of which were those related to financial authority.
3. This is the new name of the agreement of the Albanian Government with the IMF; it was previously named the Enhanced Structural Adjustment Facility (ESAF).
5. Local expenditures include both spending from conditional and independent budgets; for 1999 it also includes block grant.
6. For 1999, the amount shown is the total own source revenues of local governments.
7. Article 5/2 of the Law Concerning Local Government.
8. Until October 2000, the second level was the district (rrethi in Albanian) and the local body was the district council, which was composed of a number of elected councilors. The district councils were abolished, while the district (as a territorial and administrative sub-unit of the region) remains. A district is the minimum territorial division in which the central governmental bodies have established their branches.
9. In 1998, a new structure, called the Agency for Markets and Taxes, was established to collect local taxes in Tirana.
10. In Albanian—minibashki.
11. Regarding the implementation of functions, every unit of the first level of local government (municipalities and communes) has the right to exercise its own functions from January 2001, with the exception of the following functions: water supply; sewage and drainage system and [flood] protection channels in residential areas; urban planning, land management, housing and functions of civil security, the implementation of which will start in January 2002. In contrast, beginning January 1, 2000, the region has total responsibility for exercising its own functions as granted by law.
12. Each municipality or commune has to submit its draft budget to the prefecture that is responsible for it.
13. There was a long debate about the new position the local governments have to take under the Decentralization Strategy. According to local experts, it is very important for the local governments to have individual bank accounts. This would facilitate their activity and avoided bureaucratic procedures of the treasury branches.
The Urban Institute has finished a study on performance measurement (for public services performance) in three municipalities and one commune (Elbasan, Korca, Lushnja and Baldushku). A conference was held, where the results of this study were delivered. The study included a survey of households in each commune/municipality, trained observer ratings for public services and action plans designed for specific services of the four surveyed local governments.

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LEGISLATION

Law No. 7572, dated June 10, 1992 (amended by Law on Organizing and Functioning of Local Governments, No. 7608 (1992)).
Decision of Council of Ministries on Competencies, Functions and Financing of Local Governments, No. 204, dated March 26, 1998.
Draft Law on Intergovernmental Fiscal Relations.